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WRITTEN TESTIMONY OF

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Opening Remarks

Chair and Members of the Committee, thank you for the opportunity to testify. My name is Eric Peterson. I serve as Senior Manager for Policy and Government Relations, Americas, at Kraken. North Carolina is a national leader in finance. Your choices shape how families save, how businesses build, and how public funds meet long-term obligations. Digital assets raise practical questions that demand clear answers. How do we reunite people with assets they forgot or cannot access. How should banks offer custody and payments under strong safeguards? When do public funds use measured exposure to a new asset class to improve diversification? My testimony addresses three topics: unclaimed property for digital assets, banking parity for safe custody and payments, and strategic Bitcoin reserve options that are disciplined and capped.

Kraken is a global digital-asset platform focused on safety, transparency, and compliance. We serve individuals, businesses, and institutions across the United States. Our core commitments are simple. Protect customers. Segregate customer assets from company assets. Maintain robust KYC, AML, and sanctions controls. Provide clear disclosures and stable operations. Kraken Financial is a Wyoming-chartered Special Purpose Depository Institution. It operates on a fully reserved model with strict segregation of customer assets and regular state supervision. We work to meet or exceed the expectations that regulators, law enforcement, and consumers place on responsible market participants. We support independent proof of reserves examinations that allow clients to verify holdings. We invest in security, incident response, and resilience so clients can rely on our services through market cycles.

Kraken supports a practical state agenda. Modernize unclaimed property so agencies can accept and safeguard digital assets in kind through qualified custodians and return them directly to rightful owners. Bring state-chartered banks to parity with current federal guidance while preserving strong safety and soundness standards. Create a narrow, rules-bound pathway for public funds to gain modest Bitcoin exposure, subject to fiduciary limits, custody controls, and transparent reporting. Our goal is to be a constructive partner. We will share data, operational experience, and model language so North Carolina can protect consumers, sustain its banking leadership, and capture the benefits of responsible innovation.

1) Explain the issue.

People buy bitcoin or other tokens, forget the account exists, lose passwords/keys, or pass away. Traditionally, forgotten securities escheat to the state and are liquidated, with owners later reclaiming cash. Digital assets weren't clearly covered, so states are now writing rules for dormancy triggers, owner notice, reporting, transfer mechanics, and who may custody assets. California's SB 822 (2025) expressly brings "digital financial assets" under the Unclaimed Property Law, sets notice standards, and even addresses partial-key situations so holders can assemble keys to transfer assets. It authorizes the Controller to name qualified *digital-asset* custodians—licensed under California's Digital Financial Assets Law—and sets how assets are transferred.

2) States acting now.

- **California (SB 822, Chapter 660, Oct. 11, 2025):** Defines digital assets for UPL purposes; authorizes DFPI-licensed custodians; and requires the Controller to convert digital assets to fiat between 18–20 months after reporting, with claimants receiving tokens if still held or sale proceeds if converted.
- **Arizona (HB 2749, signed May 7, 2025):** Requires delivery **in native form** to the Department of Revenue (or its qualified custodian) within 30 days of reporting and creates a **Bitcoin and Digital Assets Reserve Fund** tied to unclaimed digital assets.
- **Ohio (HB 426, introduced Aug. 28, 2025):** Would add a framework for **safekeeping and management of unclaimed digital assets**; now in House committee.

3) Benefit to the state/North Carolinians.

Like all unclaimed property programs, the mission is to **reunite owners with their assets**. Keeping tokens in-kind—as Arizona directs and California permits before its conversion window—can preserve upside for owners and enable **direct, on-chain return** without forcing taxable sales at stale prices. Specialized custodianship reduces loss/theft risk and standardizes key management.

4) Recommendation for North Carolina.

Modernize the statute to: (a) define digital assets and dormancy/notice; (b) require **in-kind transfer** to the Treasurer's **qualified digital-asset custodian**; (c) allow perpetual in-kind holding (no forced liquidation) unless an owner instructs sale; and (d) coordinate closely with the Treasurer/Controller on custody standards and vendor licensing. California's custodian model and Arizona's in-kind remit are solid templates.

1) Explain the issue.

Until recently, banks faced significant supervisory friction around digital-asset services. In 2021

the OCC required “prior non-objection” before engaging in crypto custody, stablecoin, or distributed-ledger payments (IL 1179). In 2025 the OCC **reaffirmed** that these activities are permissible—crypto custody (IL 1170), holding stablecoin reserves (IL 1172), and using distributed ledgers/stablecoins for payments (IL 1174)—and **rescinded** the non-objection requirement (IL 1183). In May 2025, IL 1184 further clarified that banks may provide custody and **execution** services (including via sub-custodians) so long as they manage third-party risk and operate in a safe and sound manner.

Parallel to federal movement, Wyoming created the SPDI charter—a fully-reserved state bank model designed to custody digital assets; Kraken Bank (a Wyoming SPDI) is one such institution.

2) Early state leaders (pre-federal shift).

- **Virginia (HB 263; Va. Code § 6.2-818.1, 2022):** Authorizes state-chartered banks to offer **virtual-currency custody** in non-fiduciary or fiduciary capacity, subject to risk controls, insurance, and service-provider oversight.
- **Louisiana (HB 802; La. R.S. § 6:1401 et seq., 2022):** Expressly permits **financial institutions and trust companies** to provide virtual-currency custody, with required self-assessment, insurance, and third-party oversight; details non-fiduciary vs. fiduciary models.
- **Wyoming SPDI:** State-chartered, fully reserved banks with digital-asset custody authority; Kraken Bank obtained an SPDI charter in 2020.

3) Why this matters for North Carolina.

North Carolina—and especially Charlotte—is a national banking hub. Allowing **bank-provided** digital-asset custody and related services lets North Carolinians access crypto with the same consumer-protection culture, complaint channels, and service quality they already expect from banks. It also helps keep Charlotte competitive as a finance center while meeting customer demand now served by newer entrants.

4) Recommendation for North Carolina.

At minimum, bring **NC-chartered banks to parity with OCC guidance**: codify authority for (i) digital-asset custody (fiduciary and non-fiduciary), (ii) holding 1:1 stablecoin reserves for issuers, and (iii) participation in distributed-ledger payment networks—**subject to** safety and soundness, capital/liquidity, BSA/AML, third-party risk management, insurance, and audit. Use **Virginia** and **Louisiana** as model statutes for custody mechanics and risk controls, and recognize specialized providers (e.g., qualified sub-custodians) when appropriate. Preserve Wyoming-style optionality (special charters) only if NC sees a gap in its existing bank framework.

1) The issue (why now)

- **Performance & diversification.** Over most multi-year windows since 2019, Bitcoin has outperformed major asset classes while remaining **low-correlated** to stocks, bonds and even gold—useful for risk-hedging when bonds/growth are stressed. Murray Rudd’s research reviews synthesize the peer-reviewed literature on Bitcoin’s diversification value (low correlations; portfolio Sharpe uplift with small allocations).
- **State context.** Until 2024–25 most public funds avoided direct Bitcoin. With spot-ETF access and clear state models emerging, the question is no longer “if” but “how” to gain **measured exposure**. Comparative return work (since 2019) shows BTC’s substantial lead over bonds and a strong edge over gold on longer horizons, supporting a modest, policy-bounded allocation.
- **Policy scaffolding exists.** Satoshi Action Fund’s Strategic Bitcoin Reserve (SBR) materials lay out concrete reserve models, custody standards, and acquisition channels (direct, seized/forfeited, or via ETPs).

2) What states are doing (and how they differ)

- **New Hampshire (HB 302, signed May 6, 2025).** Authorizes the **state treasurer to invest up to a capped percentage** of public funds in precious metals and **digital assets with very large market caps** (effectively Bitcoin), using secure custody or regulated ETPs. First state to green-light a crypto reserve framework in statute.
- **Arizona (HB 2749, signed May 7, 2025).** Updates **unclaimed-property** law for crypto and creates a **Bitcoin & Digital Assets Reserve Fund**—fed by staking/airdrop “rewards” and certain forfeitures—so value can be retained in native form and not lost through forced liquidation. Gov. Hobbs **approved this unclaimed-property reserve** while vetoing a broader strategic-reserve bill; a separate “strategic reserve” concept (SB 1373) advanced but was not enacted.
- **Texas (SB 21, 2025).** Establishes the **Texas Strategic Bitcoin Reserve** as a special fund outside the treasury with a **\$500B 24-month market-cap filter** (practically Bitcoin-only), governance, audits and clear comptroller authority. Passed both chambers and **signed June 2025** per the public record.
- **Practice without new laws.** **Michigan** disclosed spot-ETF holdings (ARKB) from mid-2024; **Wisconsin** was an early adopter via IBIT, later fully exited in Q1’25 (filings don’t reveal P&L).

3) Why this benefits North Carolinians

A **small, rules-bound exposure** can improve the pension's risk-return profile and hedge fiscal shocks while keeping NC competitive with peer funds. Treasurer **Brad Briner's** modernization agenda explicitly targets long-term underperformance; an SBR/ETF pathway aligns with that objective without compromising safety or governance.

4) A practical menu for North Carolina

- **Fiduciary-first (ETF) lane:** Permit traditional portfolios to use spot-BTC ETPs under strict IPS caps (e.g., $\leq 1-3\%$), custody, and market-cap screens (NH-style).
- **Texas-style reserve:** Stand-alone **Strategic Bitcoin Reserve** with hard eligibility (market-cap), independent oversight, audit/reporting, and cold-storage requirements.
- **Arizona-style feeder:** Route **unclaimed/forfeited digital-asset "rewards"** (staking/airdrops) into a special reserve rather than liquidating—so citizens capture upside when assets are reclaimed.